

October 07, 2022

Ochre and Black Private Limited: Ratings reaffirmed; outlook revised to Stable; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term Fund-based – Cash Credit	30.00	55.00	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed/assigned and outlook revised to Stable from Negative
Total	30.00	55.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA has taken a consolidated view of House of Anita Dongre Private Limited (HOADPL), which includes its subsidiaries, while assigning the credit ratings, given the common management and significant operational and financial linkages among them. HOADPL has also extended corporate guarantee towards the bank facilities availed by Ochre and Black Private Limited (OBPL).

The reaffirmation of ratings and revision in the outlook to Stable from Negative reflects the green shoots of recovery in the Group's business in Q4 FY2022 and Q1 FY2023 and ICRA's expectations of sustained growth in revenues and profitability over the medium term, supported by planned augmentation of retail presence and healthy recovery in store footfalls after the last two years being intermittently affected by the pandemic-induced lockdowns. The Group's revenue grew ~62% YoY to Rs. 417 crore in FY2022 (provisional) with an operating profit margin (OPM) of 2.6%. In Q1 FY2023, the revenues stood at Rs. 149 crore, up 26% sequentially, with an OPM of ~12%, driven by higher scale of operations and lower discounting. ICRA expects the Group's revenue to record a substantial improvement to ~Rs. 650-700 crore with a healthy OPM of 8-9% in FY2023.

The Group's mass premium western wear brand AND continues to maintain its healthy market position with robust demand recovery in FY2022 and Q1 FY2023, aided by a healthy scale-up of its kid's wear sub-brand AND Girl. Recovery in revenue of the fusion wear brand - Global Desi - remains moderate on account of the headwinds faced by the ethnic/fusion wear category due to changing consumer preferences, mitigated to an extent by the repositioning towards casual and formal wear segment. The luxury ethnic wear brand, Anita Dongre, continues to perform well in its niche, supported by healthy demand in the US.

The ratings continue to draw strength from the strong brand presence of the Group's flagship brands AND, Global Desi and Anita Dongre in the domestic women's wear category as well as its established pan-India multi-channel distribution network. The ratings also derive comfort from the Group's experienced promoters and management team along with significant ownership by a large private equity firm.

The ratings, however, remain constrained by the high brand concentration risk and high working capital intensity of operations due to the large inventory holding requirements, which expose the company to substantial inventory write-off risks in the face of rapidly changing fashion trends and consumer preferences. The ratings also factor in the vulnerability of the business to adverse market conditions due to factors including, but not limited to, re-emergence of pandemic-induced business restrictions, lower discretionary spending due to high inflationary scenario and intense competition in the highly fragmented apparel retail industry.

The Stable outlook on the long-term rating reflects ICRA's expectation that an established brand presence and comfortable sales momentum along with control over the working capital cycle would help the Group maintain comfortable coverage metrics and an adequate liquidity profile.

Key rating drivers and their description

Credit strengths

Healthy recovery in performance – The performance of the Indian apparel retail sector was adversely impacted by the pandemic over the last two financial years. The Group reported a 49% YoY decline in revenues in FY2021. The second wave of the pandemic affected the Group's performance in Q1 FY2022. However, with the gradual opening of the stores and the waning impact of the pandemic, sales recovered sequentially over the balance three quarters, albeit being impacted to an extent in Q4 FY2022 due to the Omicron wave. With a healthy recovery in revenue per store, coupled with the addition of new stores, the Group's revenues grew 62% YoY to Rs. 417 crore in FY2022 (provisional). The liquidity position also improved on account of Rs. 22.5 crore rights issue and tie-up of additional bank facilities. The Group's revenues have demonstrated continued growth momentum with Q1 FY2023 revenue at ~Rs. 150 crore, which is expected to sustain over the medium term.

Strong brand equity of flagship brands – The Group has an established presence in the women's wear segment with its western wear brand, AND (launched in 1999), and fusion wear brand, Global Desi (launched in 2009). The Group has further expanded these brands by introducing kid's wear sub-brands – AND Girl and Global Desi Girl over the last two years. The two flagship brands accounted for ~75% of the Group's revenue in FY2022 with the balance being contributed by the luxury brands Anita Dongre and Grassroots. In November 2021, the Group added another brand ITSE to its portfolio, targeted at the value segment in the women's fusion wear category, to address a wider market. The flagship brands continue to enjoy an established presence and healthy recall value in the domestic branded apparels market, which is expected to aid in sustained revenue growth.

Established distribution network – The company has built a pan-India presence through exclusive brand outlets (EBOs; both company owned and franchised), large-format stores (LFSs) and multi-brand outlets (MBOs). As on March 31, 2022, the Group had a network of 233 EBOs, 294 MBOs and 808 LFSs across metro cities and tier-II and III towns. In Q1 FY2023, the company added a net of 22 EBOs and 53 MBOs to its network. The management has charted an aggressive retail expansion plan to add 50-60 EBOs (both owned and franchised) per year over the next two years and increase its presence in MBOs to 500. Increase in revenue per store, driven by higher footfalls, and augmentation of the retail network are likely to contribute to sustained revenue growth for the Group over the medium term. Additionally, e-commerce (marketplaces and own website) is likely to continue to account for ~15% of the annual revenues over the medium term.

Experienced promoters and management team – The Group's promoters have extensive experience in the fashion industry with Ms. Anita Dongre overseeing the creative function for the Group. They are ably supported by an experienced management team with Mr. Kavindra Mishra as the Managing Director and Chief Executive Officer since April 2019, having extensive experience in the branded apparel industry. Moreover, General Atlantic PE has nominated two directors on the board of HOADPL whose experience is likely to be an asset for the company.

Credit challenges

High working capital intensity of operations – The Group's business remains working capital intensive with high inventory holding requirements for existing as well as new stores. Apart from increased funding requirements, the large inventory translates into higher risk of obsolescence due to the fast-changing fashion trends, resulting in higher discounting and/or inventory write-offs, which impact profitability. The inventory levels have remained ~170-190 days over the last two years. ICRA notes the management's focus on clearing old inventory which has resulted in an improvement in its Group's inventory ageing profile with 10-15% of the inventory more than one season old as on June 30, 2022. Going forward, the Group's ability to efficiently manage its inventory levels, while targeting growth, will remain a crucial determinant of its credit profile.

Vulnerability of revenue and margins to changing consumer preferences and evolving macro-economic environment – The Group's revenues, profitability and cash accruals, like other apparel retailers, are closely linked to macro-economic conditions and spending patterns, particularly considering the discretionary nature of its products. Lower disposable incomes due to persistent high inflation and/or the re-emergence of the pandemic-induced business restrictions could have a material adverse

impact on the Group's business prospects. Besides, its sales remain vulnerable to fast-changing fashion trends and evolving consumer preferences.

Intense competition in the crowded women's wear segment – The women's wear segment is highly competitive with the presence of various branded and unbranded players. The Group faces stiff competition from foreign brands like Zara and H&M, which are rapidly increasing their footprint in the country, albeit in the metros and tier-I cities. The numerous national, regional and local brands and boutiques also add to the competition, resulting in intense price competition and high discounting which may impact the Group's profitability.

Liquidity position: Adequate

The Group's liquidity remains adequate, reflected in liquid debt mutual fund investments of ~Rs. 6.5 crore and unutilised working capital limits of ~Rs. 9 crore, with commensurate drawing power, as on June 30, 2022. Additionally, the Group is eligible to draw down Rs. 5.4 crore of sanctioned ECLGS loans which further provide a liquidity buffer. While the Group is unlikely to generate substantial cash from operations in FY2023 due to investment in inventory, it is likely to be in the range of Rs. 35-40 crore per annum over the medium term. The company is expected to have annual capex plans of Rs. 15-20 crore and annual term debt repayment obligation of Rs. 2-4 crore over the next 2-3 years.

Rating sensitivities

Positive factors – ICRA may upgrade the Group's ratings if a sustained growth in revenue and profitability, coupled with an improvement in the working capital cycle, translates into healthy liquidity and comfortable debt protection metrics.

Negative factors – Pressure on the Group's ratings could arise if there is a sustained decline in revenue and/or profitability, or if a stretch in the working capital materially impacts its liquidity profile and coverage indicators. Specific credit metrics that could trigger a ratings downgrade include interest cover (adjusted for IndAS 116) below 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Textiles (Apparels) Rating Approach - Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of HOADPL. As on March 31, 2022, the company had 3 subsidiaries, which are all enlisted in Annexure-2.

About the company

House of Anita Dongre Private Limited (HOADPL), incorporated in 1995, is engaged in the designing, manufacturing and retailing of apparel. The company, along with its wholly-owned subsidiary Ochre and Black Private Limited (OBPL), is referred to as the HOADPL Group. The Group is present in the women's and kid's wear categories with a product portfolio spanning western wear, fusion wear and ethnic wear. The Group's predominant focus is on the mass premium segment, represented by its flagship brands AND and AND Girl (western wear) and Global Desi and Global Desi Girl (fusion wear). The brand - Anita Dongre - is targeted at the high-end luxury segment. The Group has recently forayed into the economical segment with its brand - ITSE. The retail channel mix consists of exclusive brand outlets (both owned and franchised) as well as large-format stores and multi-brand outlets across tier-I, II and III cities in India.

The company was renamed from AND Designs India Limited in July 2015 and was converted to a private limited company in January 2020. In March 2019, as a part of its corporate restructuring process, HOADPL's board transferred the business under

its two brands, AND and Global Desi, to a newly formed wholly-owned subsidiary Ochre and Black Private Limited. HOADPL continues to house the two high-end brands, Anita Dongre and Grassroots.

Key financial indicators (audited)

HOADPL Consolidated	Reported		Adjusted [^]	
	FY2021	FY2022*	FY2021	FY2022*
Operating income	257.0	416.7	257.0	416.7
PAT	-90.2	-6.9	-90.2	0.3
OPBDIT/OI	-6.4%	16.2%	-32.9%	2.6%
PAT/OI	-35.1%	-1.7%	-35.1%	0.1%
Total outside liabilities/Tangible net worth (times)	2.4	2.3	0.8	0.9
Total debt/OPBDIT (times)	-18.1	3.9	-0.7	3.5
Interest coverage (times)	-0.5	2.1	-13.7	2.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional

[^]Adjusted for IndAS 116 impact by ICRA

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years						
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021			Date & rating in FY2020	
				Oct 07, 2022	Mar 28, 2022	Feb 22, 2021	Jul 31, 2020	May 18, 2020	Sep 27, 2019	Jul 29, 2019
1 Cash Credit	Long term/ Short term	55.00	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A (Negative)/ [ICRA]A1	[ICRA]A (Negative)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short-term fund-based – Cash Credit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	55.00	[ICRA]BBB+(Stable)/[ICRA]A2

Source: Company

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Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
House of Anita Dongre Private Limited	-	Parent
Ochre and Black Private Limited	100%	Full consolidation
House of Anita Dongre (USA) Inc.	100%	Full consolidation
The Anita Dongre Foundation	100%	Full consolidation

Source: HOADPL financial statements

Note: ICRA has taken a consolidated view of the parent (HOADPL) and its subsidiaries while assigning the ratings.

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Branches



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